

Our current tax policies are out of synch with our trade policies and the realities of the global marketplace. In the early 1960s, U.S. companies focused their manufacturing and marketing strategies in the United States, which at the time was the largest consumer market in the world. U.S. companies generally could achieve economies of scale and rapid growth-selling exclusively into the domestic market. In the early 1960s, foreign competition in U.S. markets generally was inconsequential.

The picture today is completely different. First, U.S. companies now face strong competition at home. Since 1980, foreign direct investment in the United States has increased by a factor of six (from \$216 billion to \$752 billion in 1997), and imports have tripled as a share of GDP from an average of 3.2 percent in the 1960s to an average of over 9.6 percent over the 1990-97 period.

Second, foreign markets are more attractive today than they were in the past. For example, from 1986 to 1997, foreign sales of S&P 500 companies grew 10 percent a year, compared to domestic sales growth of just 3 percent annually. Foreign markets also afford increasingly attractive investment opportunities.

From the perspective of the 1960s, there was little apparent reason for U.S. companies to direct resources to penetrating foreign markets, since U.S. companies should achieve growth and profit levels that were the envy of their competitors with minimal foreign operations. By contrast, in today's economy, competitive success requires U.S. companies to execute global marketing and manufacturing strategies with the result that provisions of our tax system designed when foreign operations were viewed as presumptively tax-motivated have become increasingly outmoded.

It is because of the great changes in global trade that we involved ourselves in this issue. The current rules guiding our international tax policies were written at a time when the focus was on preventing tax avoidance, not on promoting international competitiveness. Our main goal this year is to build on the successes that we had in the 105th Congress. This will be our fourth bill in this area, and our third with our Senate counterparts, Senators HATCH and BAUCUS. It includes some new provisions, but in many ways reflects the reality that much has been done to correct some of the problems facing U.S. industries in this arena, but there is a great deal of work left to be done.

Our first order of business is to simplify the international tax regime to ensure American competitiveness both at home and abroad. The tax provisions that we are introducing today will significantly affect the national welfare and will enhance the participation of the United States in the global economy of the 21st century. I look forward to working with my House and Senate colleagues to pass this important piece of legislation into law.

THE ASSOCIATION HOUSE OF
CHICAGO CELEBRATES 100 YEARS

HON. LUIS V. GUTIERREZ

OF ILLINOIS

IN THE HOUSE OF REPRESENTATIVES

Monday, June 7, 1999

Mr. GUTIERREZ. Mr. Speaker, I rise to pay tribute to the Association House of Chicago as

it celebrates its 100th anniversary on June 8, 1999. Association House has been serving the community I represent since before the turn of the century. It was founded by more than one hundred women and served as a settlement house and social service agency for immigrants arriving in Chicago.

Throughout its century of public service, the mission and goals of Association House of Chicago have expanded. Association House continues to provide vital services, programs and assistance to families, children, seniors and immigrants throughout our community. Each year, Association House assists nearly 20,000 individuals and families throughout the Chicago area, providing services ranging from the most basic of necessities to managing larger government contracts. The expansion of Association House's services during the past two decades led the agency to buy a second facility last year. This growth helps immigrants take naturalization classes, learn English and master trades.

In addition to the programs Association House offers in education, citizenship and job readiness training, Association House offers after-school programs and activities for children. The agency also provides foster care and adoption services, addiction recovery programs and provides emergency food and clothing. The staff of Association House is truly dedicated to their programs and the people they benefit.

Mr. Speaker, I commend the Association House of Chicago for building a strong tradition of service toward others. The work that Association House has accomplished since its first days cannot be measured. For one hundred years, Association House has been assisting, teaching and counseling people of all ages, races, cultures and ethnic backgrounds. From preparing people to enter the workforce to teaching them to speak English to caring for at-risk children, Association House has served as a shining beacon of hope in Chicago. I am honored to commend Association House on a century of unequalled service to the people of our city.

INTERNATIONAL TAX SIMPLIFICATION
FOR AMERICAN COMPETITIVENESS
ACT OF 1999

HON. AMO HOUGHTON

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Monday, June 7, 1999

Mr. HOUGHTON. Mr. Speaker, today I am joined by my colleagues, Messrs. LEVIN, SAM JOHNSON, HERGER, MATSUI, CRANE, and ENGLISH in introducing our bill, "International Tax Simplification for American Competitiveness Act of 1999". The world economy is globalizing at a pace unforeseen only a few years ago. Our trade laws and practices have encouraged the expansion of U.S. business interests abroad, but our tax policy lags decades behind—in fact, in many cases, our international tax policy seems to promote consequences that are contrary to the national interest.

In the 1960s, the United States accounted for more than 50 percent of cross-border direct investment. By the mid-1990s, that share had dropped to about 25 percent. Similarly, of the world's 20 largest corporations (ranked by

sales), 18 were U.S.-headquartered in 1960. By the mid-1990s, that number had dropped to eight. The 21,000 foreign affiliates of U.S. multinationals now compete with about 260,000 foreign affiliates of multinationals headquartered in other nations. The declining dominance of U.S.-headquartered multinationals is dramatically illustrated by the recent acquisitions of Amoco by British Petroleum, the acquisition of Chrysler by Daimler-Benz, the acquisition of Bankers Trust by Deutsche Bank, and the acquisition of Case by New Holland. These mergers have the effect of converting U.S. multinationals to foreign-headquartered companies.

Ironically, despite the decline of U.S. dominance of world markets, the U.S. economy is far more dependent on foreign direct investment than ever before. In the 1960s, foreign operations averaged just 7.5 percent of U.S. corporate net income. By contrast, over the 1990-97 period, foreign earnings represented 17.7 percent of all U.S. corporate net income.

Over the last three decades, the U.S. share of the world's export market has declined. In 1960, one of every six dollars of world exports originated from the United States. By 1996, the United States supplied only one of every nine dollars of world export sales. Despite a 30 percent loss in world export market share, the U.S. economy now depends on exports to a much greater degree. During the 1960s, only 3.2 percent of national income was attributable to exports, compared to 7.5 percent over the 1990-97 period.

Foreign subsidiaries of U.S. companies play a critical role in boosting U.S. exports—by marketing, distributing, and finishing U.S. products in foreign markets. U.S. Commerce Department data show that in 1996 U.S. multinational companies were involved in 65 percent of all U.S. merchandise export sales. In the 1960s, the foreign operations of U.S. companies were sometimes viewed as disconnected from the U.S. economy or, worse, as competing with domestic production and jobs. In today's highly integrated global economy, economic evidence points to a positive correlation between U.S. investment abroad and U.S. exports.

At the end of the 20th century, we confront an economy in which U.S. multinationals face far greater competition in global markets, yet rely on these markets for a much larger share of profits and sales, than was the case even a few years ago. In light of these changed circumstances, the effects of tax policy on the competitiveness of U.S. companies operating abroad is potentially of far greater consequence today than was formerly the case.

As we begin the process of re-examining in fundamental ways our income tax system, we believe it imperative to address the area of international taxation. In an Internal Revenue Code stuffed with eye-glazing complexity, there is probably no area that contains as many difficult and complicated rules as international taxation. Further, I cannot stress enough the importance of continued discussion between the Congress and Treasury of simplifying our international tax laws; and in making more substantial progress in regard to eliminating particular anomalies such as with the allocation of interest expense between domestic and foreign source income for computation of the foreign tax credit or in regard to how our antiquated tax rules deal with new integrated trade areas such as the European Union.